



CITY OF SOUTH PASADENA
1414 Mission St. South Pasadena, CA 91030
Phone: (626)403-7257
BUSINESS LICENSE FAQ

The City is currently in the process of undertaking a comprehensive review of the Business License Ordinance to clarify existing ambiguities, streamline the application process and the city's administration of business licenses, and simplify the existing rate structures. To this end, the City has contracted with HdL Software (HdL) to perform a rate analysis and make recommendations for possible alternative structures. As part of this process it is necessary to establish an accurate count of businesses operating in South Pasadena.

The City and the California State Franchise Tax Board (FTB) have a reciprocal Agreement authorizing the exchange of business data. The City provides the FTB with our business license database, and the FTB sends the City a list of entities that have filed business tax returns. By matching the FTB data to our existing records we now have an additional, effective tool to identify possible unregistered businesses within the City. This information will inform our planned prospective revisions to our Business License Ordinance.

The City of South Pasadena recently sent letters to residents who were identified as part of the FTB disclosures and who do not already have business licenses with the City. The records we have received from FTB are a result of the taxpayer's submission of a Schedule C or 1099 as part of your state tax return. If after reading this notice you still believe you received the letter in error because you did not submit either a Schedule C or 1099 with your state tax return you should work with the Franchise Tax Board to correct their reporting.

The City recognizes many residents were not aware of their tax obligations to the City. City Council has approved a tax amnesty for prior year tax obligations if payment for the current year is made by December 31. If you recently paid previous years owed after receiving the City's letter indicating you may have engaged in business activity in South Pasadena, the City will issue you a refund for all prior years dating back to 2014.

Most cities require business license for anyone operating a business, including home based businesses.

Why did I receive this notice?

The City of South Pasadena recently received information from the FTB that a business tax return was filed from your address; this indicated that you **may** be engaged in business activity in South Pasadena. A search of City records does not reveal a current City Business License. If you are a 1099 employee or filed a schedule C or a fictitious business name with a City of South Pasadena address, such could be an indicator that you require a business license.

Are you claiming deductions on your tax returns for business expenses?

If you are claiming deductions such as home space for office use, office supplies used in your home, or other business related expenses using your home address you are subject to the business license tax.

I am not operating a business. What does the City of South Pasadena consider to be a business and why do they believe I may be operating as one?

Most activities conducted within the City with continuing and regular basis are considered engaging in business and subject to business tax, unless an exemption applies. All persons or companies conducting business within the City limits of South Pasadena are required to obtain a city business license. This includes but is not limited to retailers, wholesalers, manufacturers, service providers, professionals, non-profit organizations, independent contractors, home businesses and residential landlords renting three or more units. If you are a 1099 employee but do not conduct any business within the City AND do not claim deductions such as home space for office use, office supplies used in your home, or other business related expenses using your home address, then please submit an Exemption Questionnaire Form with supporting documents for the City's review in determining whether you are exempt from the business license tax.

Are certain types of businesses exempt from obtaining a license?

Yes, below are the people and/or businesses which are exempt from paying a business license fee tax:

- Non-profit institution, corporation, organization or association organized and hereby apply for an exemption from payment of business license tax. This exemption does not apply to promoters employed by non-profit institutions, corporations, organizations or association.
- Honorably discharged soldier, sailor or marine of the United States selling goods, wares, or merchandise made by him or her; and who exhibits his or her authenticated discharge papers and an application approved by the license collector of the city
- An employee or direct agent of a licensee conducting the business of such licensee
- A domestic servant, dressmaker, or music teacher doing business at your home, not employing helpers, nor from persons transporting or operating, without compensation, vehicles from points within the city to points outside the city for repairs or servicing.

What can I do if I am past due?

The City is offering a temporary amnesty program in which you can pay current obligations between October 23, 2017 and December 31, 2017 with no late penalties. The City will forgive all prior year tax obligations if the current license is paid during the Amnesty period.

You may have had a business in the past which has since closed.

If you had a business or operated a business from your home but the business has since closed you are not required to obtain a business license. Please submit an Exemption Questionnaire Form with supporting documents to indicate you are no longer in business in South Pasadena.

I am a real estate agent and I am not operating a business from my home.

If you are employed by a brokerage firm and receive a W-2 you are not required to obtain a business license. Please submit an Exemption Questionnaire Form and provide the City with documents indicating you are a W-2 employee. If you are a 1099 employee and are claiming deductions such as home space for office use, office supplies used in your home, or other business related expenses using your home address you are subject to the business license tax. If you are a 1099 employee who operates from a satellite office and only use your home as a mailing address, please submit an Exemption Questionnaire Form and provide the City with documents indicating you are not claiming any deductions from your home.

You may receive payments or earnings as a freelancer:

If you are a freelance artist, consultant etc. who files or has filed a 1099 you are considered a home based business and are required to have a business license within the City. If you have a physical business outside of the City and use your home address as a mailing address please submit an Exemption Questionnaire Form and provide a document indicating your business is located outside the City.

You may own rental units:

If you own 3 or more rental units in South Pasadena you are required to obtain a business license. If you have a rental property outside the City and claim deductions such as home space for office use, office supplies used in your home, or other business related expenses using your home address you are considered a business and are required to obtain a license. If you DO NOT claim deductions such as home space, etc. and use your home as a mailing address please submit an Exemption Questionnaire Form and provide the City with supporting documents.

I do minor consulting on a part-time basis. Do I have to get a business license?

Yes, businesses both large and small require a City business license to be in compliance with the municipal code. If consulting work is performed as an independent contractor within the City limits you are required to obtain a business license. If you do not perform consulting work within the city but are claiming deductions such as home space for office use, office supplies used in your home, or other business related expenses within the City, you are considered a business and are required to obtain a business license.

I have a P.O. Box in the City where I receive my business mail.

If you have a P.O. Box within City limits and receive business mail but do not live in the City and do not conduct any business in the City you are not required to obtain a business license. Please submit an Exemption Questionnaire Form.

I receive a 1099 form instead of a W-2 from my work. Am I required to have a City of South Pasadena business license?

Yes, those that work as an independent contractor and are paid by 1099 versus W-2 need to have a City of South Pasadena business license if you are claiming deductions such as home space for office use, office supplies used in your home, or other business related expenses you are considered a business and are required to obtain a business license, however if you are a 1099 employee who does not conduct business within the City and does not claim deductions from your home space for office use, office supplies used in your home, or other business related expenses please submit an Exemption Questionnaire Form with supporting documents.

My business entity (Corporation, LLC, Partnership, etc.) is entirely passive and is just paying a minimum tax to the Secretary of State. Is it required to get a license?

Yes, if your business is registered active with the Secretary of State and reporting on a business return with the FTB and IRS, it will need a license. By maintaining a business entity within the City whether it is transacting public business or not, is considered operating a business under the municipal code.

I am operating more than one business from one location. Do I need to obtain two business licenses?

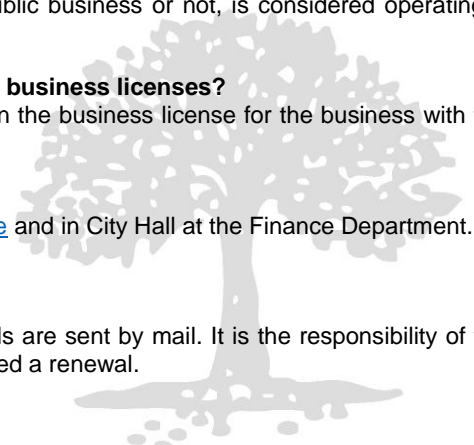
If you are operating multiple businesses from one location you will be required to obtain the business license for the business with the higher tax rate.

How do I file a business license?

The forms can be found on the City website www.southpasadenaca.gov/businesslicense and in City Hall at the Finance Department. Once filled out the Finance department can help you calculate your fees.

When do I receive the renewal?

Renewals are sent annually based on your business license application date. Renewals are sent by mail. It is the responsibility of the business owner to ensure they have a business license whether or not they have received a renewal.



What if I believe I do not require a business license?

If you believe this notice was sent to you by mistake or that your business does not require a license per the City's Municipal Code and information provided in this document please submit an Exemption Questionnaire Form with supporting documents. The Exemption Questionnaire Form can be found on the City website and in City Hall at the Finance Department. In order to protect sensitive information, supporting documents for the Exemption Questionnaire Form must be provided in person at the City Hall Finance department. The City will review your supporting documents and an Exemption Questionnaire Form. Your supporting documents will be returned to you immediately.

When should I apply for a business license?

An application must be submitted and paid before starting business operations.

How is my business license fee calculated?

Business license taxes are based primarily on the type of business; there may be additional charges based on the number of full- and part-time employees, and may also include the City's Business Improvement Tax. The Business Improvement Tax established in 1977 can be used for investment in the promotion of public events that take place on or in public spaces, coordination of the holiday decoration, and engagement in the general promotion of retail trade activities in the 91030 zip code. Please refer to the Master Fee Schedule for rate information.

Future revisions to the Business License Ordinance:

When the amnesty period has concluded, the City should have a more accurate picture of the types of businesses being conducted along with the expected revenue that should be collected on an ongoing basis. The City's consultants, HdL, will take this information and provide the City with various options for changing the tax rate structure with the intention, as stated above, of simplifying the process, and hopefully making it more equitable across the board. They will also suggest changes to the language of the Business License Ordinance to eliminate ambiguities and clarify any other possible points of contention regarding the requirements for a business license. HdL's review and analysis is expected to be completed in the spring of 2018.

